

## Message Text

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70

ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07

L-03 NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15

AID-05 EB-07 CIEP-02 TRSE-00 STR-04 OMB-01 CEA-01

COME-00 FRB-01 XMB-04 OPIC-06 LAB-04 SIL-01 /114 W

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R 091714Z AUG 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4389

TREASURY DEPT WASHDC

INFO AMEMBASSY BONN

AMEMBASSY ROME

AMEMBASSY PARIS

AMEMBASSY TOKYO

USMISSION OECD PARIS

UNCLAS LONDON 12423

E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: CALLAGHAN DOES NOT RULE OUT POSSIBILITY OF IMF  
BORROWING

1. SPEAKING IN A RADIO INTERVIEW OVER THE WEEKEND, PRIME  
MINISTER CALLAGHAN DID NOT RULE OUT THE POSSIBILITY OF  
BRITAIN RETURNING TO THE IMF FOR ADDITIONAL BORROWING.  
WHEN ASKED ABOUT THE POSSIBILITY OF THIS CALLAGHAN RESPON-  
DED, "IT'S POSSIBLE. BUT NO DECISION HAS BEEN TAKEN.  
THE NEED FOR IT HAS NOT ARISEN AND WE SHOULDN'T TAKE IT  
TOO SERIOUSLY IF IT DOES ARISE." THE PRIME MINISTER FELT  
THAT IT WOULD BE A "PERFECTLY NATURAL" COURSE  
OF ACTION GIVEN THE GENERAL DIRECTION OF THE GOVERNMENT'S  
CURRENT ECONOMIC POLICIES. HE STRESSED "THAT ISN'T TO  
SAY WE SHALL DO IT. A LOT DEPENDS ON WHAT HAPPENS IN THE  
NEXT FEW MONTHS. NO DECISION HAS BEEN TAKEN AND THERE IS  
NO NEED TO REACH A DECISION YET."

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2. CALLAGHAN EXPRESSED GUARDED OPTIMISM ON THE GENERAL ECONOMIC AND INDUSTRIAL PROSPECTS. WHILE RECOGNIZING THAT THERE ARE STILL ADVERSITIES TO BE OVERCOME HE FELT THAT CONDITIONS ARE OBJECTIVELY FAVORABLE FOR CONTINUED GROWTH PARTICULARLY IN THE EXPORT FIELD. HE STATED HOWEVER THAT THROUGH 1980 BRITAIN WOULD BE "WALKING THE ECONOMIC TIGHTWIRE" AND TO MAINTAIN BALANCE EVERYONE HAS TO WORK TOGETHER.

3. THE PRIME MINISTER SAID THE "REAL PROBLEM FOR US NOW IS WHETHER BRITISH INDUSTRY CAN DELIVER. I THINK THIS IS THE BASIC ISSUE. OUR INDUSTRIAL BASE HAS BEEN NARROWING FOR SOME YEARS AND WE WANT TO BROADEN IT OUT AGAIN."

4. CALLAGHAN EXPRESSED GREATEST CONCERN OVER THE SHORT-TERM PROBLEM OF UNEMPLOYMENT WHICH HE SAID WOULD HAVE TO BE SOLVED INTERNATIONALLY. HE FELT THAT BRITAIN COULD NOT SOLVE THE SHORT-TERM EMPLOYMENT PROBLEM ALONE BECAUSE OF THE INTERDEPENDENCE OF INDUSTRIAL ECONOMIES. HE RECOGNIZED ALSO THAT CURRENT INCOMES POLICIES HAD COMPRESSED WAGE DIFFERENTIALS AND LACKED ADEQUATE PROVISIONS FOR DIFFERENCES IN SKILL AS WELL AS "PROPER REWARDS" FOR MIDDLE MANAGEMENT. THIS WOULD MEAN A PERIOD OF TOUGH BARGAINING FOLLOWING THE END OF STAGE 2 AND WOULD REQUIRE THE COORDINATED EFFORTS OF GOVERNMENT, INDUSTRY AND TRADE UNIONS IN MAINTAINING ADEQUATE GROWTH WITHOUT A RESURGENCE OF INFLATION.

ARMSTRONG

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**Capture Date:** 01 JAN 1994  
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**Disposition Approved on Date:**  
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**TAGS:** EFIN, UK, IMF, (CALLAGHAN, JAMES)  
**To:** STATE  
TRSY  
**Type:** TE  
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